

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 TEGUCIGALPA 001720

SIPDIS

SENSITIVE

STATE FOR EB/IFD, WHA/EPSC, INR/IAA, DRL/IL, AND WHA/CEN
TREASURY FOR DDOUGLASS
STATE PASS AID FOR LAC/CAM
DOL FOR ILAB
GUATEMALA FOR COMATT AND AGATT

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ELAB](#) [EAGR](#) [PGOV](#) [HO](#)

SUBJECT: HONDURAS: MACROECONOMIC UPDATE: SIGNS ARE
POSITIVE; ANGST BY POLITICIANS OVER SPENDING RESTRAINT

11. (SBU) Summary: As of July, inflation remains moderate, at 8.6 percent year-on-year, though fuel price increases have led to increases in consumer prices for foodstuffs, lodging, utilities, and transportation. The GOH continues to consult broadly on proposals for applying an estimated USD 212 million in savings from forgiven debt service payments, having received proposals valued at over six times the value of available funds. The Honduran lempira remains stable at 18.86 lempiras to the U.S. dollar. Interest rates dipped to 16.4 percent this week on anomalous action but are expected to rebound to 18 percent next week. Minister of Finance William Chong Wong has been sharply criticized by at least one Nationalist Party Congressman for refusing to allow the Nationalists in Congress to break the GOH fiscal responsibility agreements in order to increase their chances of winning the November 27 elections. Post fully supports Chong's fiscally responsible approach, and sees in such attacks precisely what the IMF and others have feared: the temptation to throw fiscal restraint out the window in an all-out attempt to win the 2005 elections. End Summary.

12. (U) Inflation: Year-on-year headline inflation for July was 8.9 percent, according to recently released Central Bank of Honduras figures. Consumer Price Index inflation for the month of July was 0.9 percent, bringing accumulated inflation for the year to 5.8%, according to the Bank. The key contributions to this increase came from Foodstuffs (42 percent -- see para 3), Utilities and Lodging (22 percent), and Transportation (15 percent). Increased costs for gasoline and LPG were reportedly significant contributors to the price rises seen in all three leading categories.

13. (U) Foodstuffs: The Ministry of Commerce has just released the results of an August 8-12 price survey of the elements of the family basket of foodstuffs (the "canasta basica"). The canasta basica is a politically important rough measure of pricing pressures on Honduran lower classes. The survey showed price raises in most products, and a significant (20 percent) decline in the price of red beans (owing to a strong harvest) and a slight decrease in the cost of milk products (thanks to increased production during the rainy season). The net effect was an overall price increase, significantly contributing to overall price pressures seen in July. The components of the basket are:

Rice, 350 grams
Red beans, one pound
White Corn, one pound (in kernel)
Corn Flour, two pounds
Pasta, 200 grams
Poultry meat, one pound
Cut of Beef, one pound
Cut of pork, one pound
"Mantequilla" cream cheese, one pound
Fresh Cheese, one pound
Common ("popular") cheese, one pound
Eggs, per egg

14. (U) Fuel Prices Rise: The cost for gasoline has hit a historical high, retailing at just over 69 lempiras (approximately USD 3.65) per gallon. That is an increase of three lempiras in addition to last week's price increase of a bit more than two lempiras per gallon, for a total price increase of nearly ten percent in just eight days. (Note: Fuel prices are set by the GOH based in part on a complex formula that guarantees profit margins to each stage of the petroleum retail chain. End note.) Liquefied Petroleum Gas (LPG) has also continued to rise, up this week from 201 to 206 lempiras per 25 pound tank. In part in response to public outcry over rising prices, Minister of Environment and Natural Resources Patricia Panting announced that the GOH will be inviting oil exploration in the offshore areas between Tela and La Mosquitia, on Honduras' Atlantic coast. Previous exploration over the last 45 years has occasionally shown oil traces, but in insufficient quantities to be commercially viable.

15. (U) Debt Forgiveness: Colombian Foreign Minister Carolina Barco Isakson announced during her visit to Honduras the week of August 8 that Colombia has agreed to forgive USD 23 million in bilateral debt owed by Honduras. While symbolically important, this is a modest sum in the face of the estimated USD 2.8 billion forgiveness Honduras recently secured from the Group of Eight industrialized nations, the Paris Club, and the International Financial Institutions. That forgiveness should free up an estimated USD 212 million (approximately 4,100 million lempiras) per year -- which would have been earmarked for debt service -- to spend on social programs. The GOH has been conducting outreach events in provincial capitals to explain debt forgiveness, and to solicit proposals for applying those funds within the framework of the agreed Poverty Reduction Strategy. Minister of Labor German Leitzelar leads that effort for the GOH and reported that, as of early August, the GOH had received approximately 25 billion lempiras in proposals, or six times the total annual resources freed up by the debt forgiveness.

16. (U) Currency: Following an August 11 Central Bank auction of USD 18.6 million, the exchange rate remains roughly stable at 18.8692 lempiras to the dollar. The Central Bank predicts a depreciation of the lempira of approximately 2.5 percent in CY 2005, down from 4.4 percent in CY 2004.

17. (U) Interest Rates: Average commercial lending rates in lempiras, which have held steady around 18.2 percent for most of 2005, took a sharp dip to 16.4 percent this week due to two large loans to parastatal firms at 14 percent rates, a Central bank official told EconChief. That 16 percent average rate therefore does not represent the 18 to 22 percent that prime private sector borrowers are paying. The average rates is expected to rebound next week, absent the effects of the two abovementioned loans. Lempira deposits yielded just a bit over 10 percent, for an interest rate spread of over 8 percent (a reflection of the inefficiency of what is still a relatively uncompetitive banking sector.) Average rates on dollar-denominated loans and deposits were 7.8 percent and 3.25 percent, respectively.

18. (SBU) Playing Politics with Fiscal Restraints: Minister of Finance William Chong Wong came under fire this week from Nationalist Party Congressman Antonio Flores for defending GOH adherence to the IMF agreement. Chong is holding Congress to its obligation under Honduran law to identify offsetting spending cuts or revenue enhancements to pay for its proposed cut in electricity rates (reported septel). Flores did not mince words when he publicly declared that the Nationalist Party "is not going to lose the elections because of (Chong)." He reportedly described Chong as "poking Congress with a short stick" because "every time (Congress) discusses a project or launches a proposal, we run right into the terrible opposition of William Chong Wong." Flores declared that his fellow party members "are sick of this situation" and that Chong is putting the Nationalist Party in "a difficult position" and is "putting the (Nationalist) government in danger by not making the necessary funds available to carry out the projects we have designed for our communities... If we are going to work to ensure the victory of (Nationalist presidential candidate and President of Congress) Porfirio (Lobo Sosa), and if we have to fight William Chong Wong, or whomever in the Executive branch, we'll do so." (Comment: Post fully supports Chong's fiscally responsible approach, and sees in Flores' comments precisely what the IMF and others have feared: the temptation to throw fiscal restraint out the window in an all-out attempt to win the 2005 elections. End comment.)

Williard
Williard